

TAKE A LOOK UNDER THE HOOD—THE NUMBERS THAT DRIVE LANGLEY'S SUCCESS

Forget debits and credits, amortization, forward rate swaps, IRR, ALM, FASB and all the other accounting nerd stuff—this is easy!

2019 Goals

- Loan growth
- Deposit growth
- Spend
- Engaged member
- Active online banking

How do we make money?

- How does a grocery store make money?
 - They purchase products and sell them for a profit.
 - We do the exact same thing—except we have one product

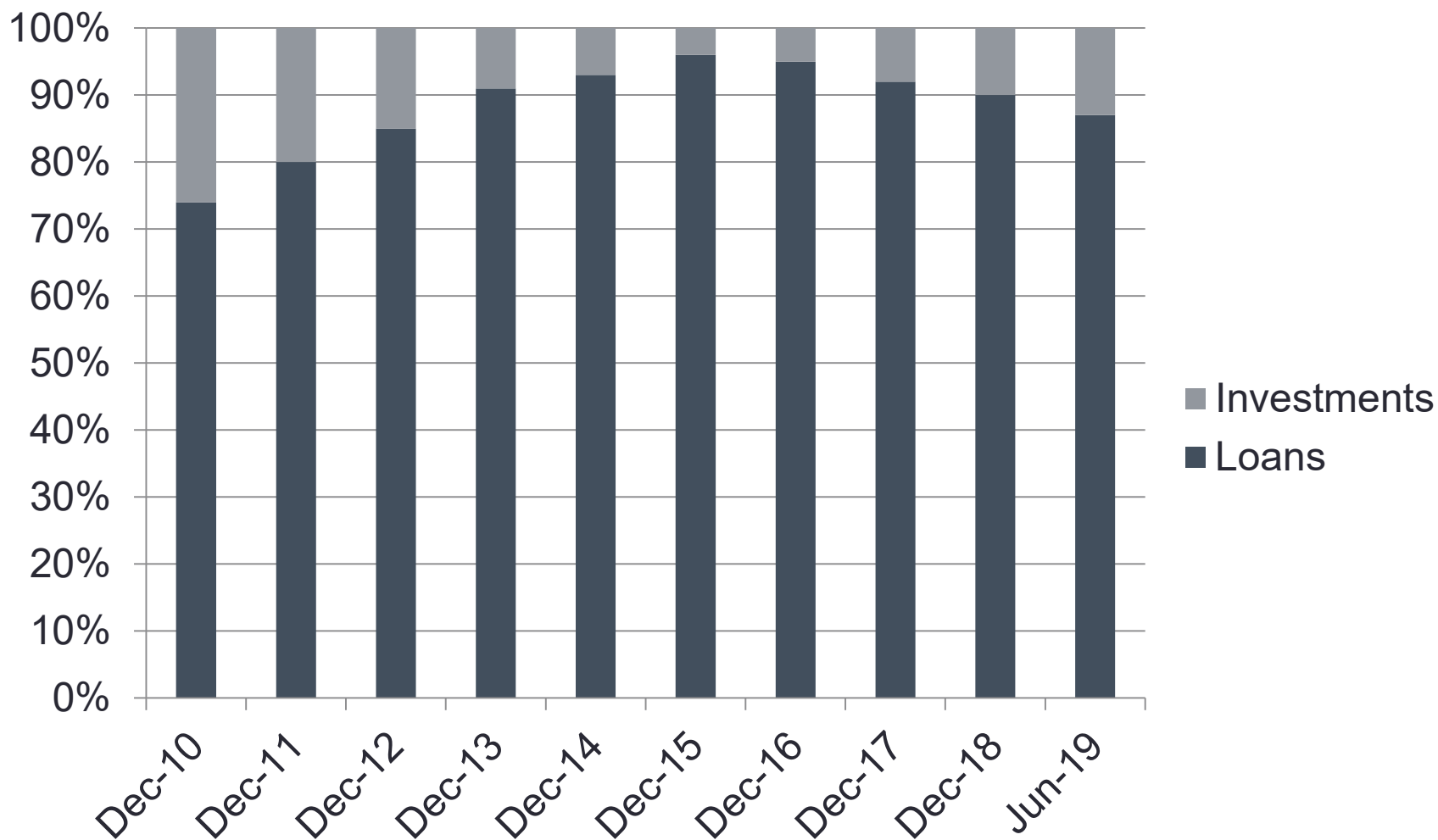
CASH

- We buy cash = Deposits
- We sell cash = Loans
- The difference between what we sell our cash for and what we buy it is called the **net interest margin**. This margin then “pays for” all the other expenses of the credit union.

What are our Options?

- Lend it
- Invest it
- Which yields us the better result?

Historical Perspective



To the Numbers!

<i>(In thousands)</i>	<u>Sep-19</u>	<u>Dec-18</u>	<u>Dec-17</u>
Interest income			
Loans	\$ 74,640	\$ 83,211	\$ 75,989
Investments and cash equivalents	10,818	9,093	6,998
Total interest income	<u>85,458</u>	<u>92,304</u>	<u>82,987</u>
Interest expense			
Members' shares	19,038	17,336	12,235
Interest on Borrowed Funds	5,054	4,724	2,318
Total interest expense	<u>24,092</u>	<u>22,060</u>	<u>14,553</u>
Net interest income	<u>61,366</u>	<u>70,244</u>	<u>68,434</u>
Less provision for loan losses	<u>7,472</u>	<u>14,689</u>	<u>16,852</u>
Net interest income after provision for loan losses	<u>53,894</u>	<u>55,555</u>	<u>51,582</u>
Non-interest income			
Interchange	11,310	13,192	11,701
Fees and charges	14,257	18,159	16,945
Other income	4,862	7,368	7,387
Investment gains	4,189	1,196	898
Total non-interest income	<u>34,618</u>	<u>39,915</u>	<u>36,931</u>
Operating expense			
Salaries and benefits	29,713	36,000	33,797
Occupancy and operations	19,240	24,059	22,229
Professional and outside services	11,044	12,641	10,769
Other expenses	4,636	4,683	4,300
Total operating expense	<u>64,633</u>	<u>77,383</u>	<u>71,095</u>
Net income	<u>\$ 23,879</u>	<u>\$ 18,087</u>	<u>\$ 17,418</u>

Much better!

<i>(all percentages)</i>	Sep-19	Dec-18	Dec-17
Yield on assets	3.88	3.50	3.44
Cost of funds	<u>-1.09</u>	<u>-0.84</u>	<u>-0.60</u>
Net interest margin	2.79	2.66	2.84
Provision for loan loss	<u>-0.34</u>	<u>-0.56</u>	<u>-0.70</u>
Net interest margin after provision	2.45	-2.10	-2.14
Non-interest income	1.41	1.46	1.49
Operating expense	<u>-2.93</u>	<u>-2.93</u>	<u>-2.95</u>
Income from recurring operations	0.92	0.63	0.68
Other non-interest income	<u>0.16</u>	<u>0.05</u>	<u>0.04</u>
Return on assets (ROA)	<u>1.08</u>	<u>0.68</u>	<u>0.72</u>

Basis Point Definition

- The relationship between percentage changes and basis points can be summarized as follows:
 - 1% = 100 basis points
 - 0.01% = 1 basis point
- Interest rates that have risen 1% are said to have increased by 100 basis points.
- A change from 3% to 4% is a 100 basis point change.

Income statement

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- Deposit growth
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LOANS

Interest Income

\$ in thousands

2019 ytd

2018

2017

Loans

Balances	\$ 2,300,000	\$ 2,120,000	\$ 1,953,000
Income	\$ 74,640	\$ 83,211	\$ 75,989
Yield	4.57%	4.07%	4.11%

Investments

Balances	\$ 548	\$ 562	\$ 435
Income	\$ 74,640	\$ 83,211	\$ 75,989
Yield	2.43%	2.04%	1.69%

Yield on assets

3.88%

3.50%

3.44%

Building the Income Statement

<i>(all percentages)</i>	Sep-19	Dec-18	Dec-17
Yield on assets	3.88	3.50	3.44

DEPOSITS

Cost of Funds

\$ in thousands

2019 ytd

2018

2017

Deposits

Balances	\$ 2,419,000	\$ 2,250,000	\$ 2,061,000
Expense	\$ 19,038	\$ 17,336	\$ 12,235
Cost of deposits	1.08%	0.80%	0.62%

Cost of funds

1.09%

0.84%

0.60%

Bread and Butter

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Bread and Butter, less the moldy stuff

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SPEND

Non-interest Income

\$ in thousands

2019 ytd

2018

2017

Non-interest income

Interchange	\$ 11,310	\$ 13,192	\$ 11,701
All other	\$ 23,308	\$ 26,723	\$ 25,230

Non-interest income

1.41%

1.46%

1.49%

Jam!

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The Rest of the Story

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But what about the other goals?

- Engaged members?
 - Save, borrow or spend!
- Active online banking
 - Where is that reflected?

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Summary

Income Statement

	Sep-19
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Net interest margin	2.79
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Net interest after loan loss	2.45
Non-interest income	1.41
Operating expense	<u>-2.93</u>
Income from recurring ops	0.92
Other non-interest income	<u>0.16</u>
Return on assets	<u>1.08</u>

Goals

Loans, engaged
Deposits, engaged
Spend, engaged, loans
Active online banking

QUESTIONS?

Thank you